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SUBJECT: FAO 125TH FINANCE COMMITTEE HIGHLIGHTS: FUNDING FOR REFORM

1. (SBU) Member representatives of the Food and Agriculture Organization's (FAO) Finance Committee (FC) met in Rome on March 9-10 to discuss funding for FAO's ambitious new reform program and to review the agency's human resource management strategy. Noting a shortfall in voluntary financial contributions to launch all aspects of its reform plan, FAO management described cost-free steps it has already initiated regarding implementation of the Immediate Plan of Action (IPA) - FAO's reform package approved by members at the November 2008 Conference. Management highlighted changes underway in human resource management, financial accounting, procurement, and reporting structures, but presented uneven information on costs and savings associated with these changes. The FC reaffirmed the primacy of IPA implementation and called for improved communications with members on progress, based upon transparent, understandable, and compelling financial reports. FC members also called for management to clearly define a roadmap of action on reform implementation. With the limited funds currently available in the IPA Trust Fund, FAO will proceed with drafting tenders for elements of the IPA with large cost implications (IT systems, Enterprise Risk Management Study, HR evaluation and training programs, and staff rotation policy). But, without additional contributions by mid-year, it warned, issuance of tenders and the reform process could be delayed. Several large EU donors argued that FAO should reprioritize funds toward reform on the basis of extra-budgetary contributions to technical and other programs (e.g., the EU's EURO one billion "food facility"). The absence of a USG pledge or contribution to the reform trust fund continues to be a source of criticism from both management and other members. End summary.

REVIEW OF THE IPA TRUST FUND

2. (U) The 123rd Session of FAO's Finance Committee took place in Rome on March 9-10, chaired by Egypt, and attended by Cameroon, China, Denmark, France, Germany, Mexico, Pakistan, Panama, Uganda (not present), and the U.S. (Vice Chair, represented by USUN Rome Charge d'Affaires). A full report of the meeting is located at: [HYPERLINK "http://www.fao.org/unfao/bodies/fc/fc125/index_en.htm"](http://www.fao.org/unfao/bodies/fc/fc125/index_en.htm) www.fao.org/unfao/bodies/fc/fc125/index_en.htm. In keeping with recommendations of the recent FAO Independent External Evaluation (IEE), the FC opened its session to silent observers from all FAO member states. Reviewing the status of the IPA Trust Fund as of March 6, FC members were told the fund contained voluntary contributions totaling USD 3,130,856 with total pledges from member states totaling USD 6.25 million. The FC encouraged members to fulfil their pledges and called upon others to contribute as a demonstration of the shared ownership and commitment to the IPA. The Committee requested that the status of the Trust Fund be a standing item on its agenda at future meetings, including a summary of expenditures charged against the Trust Fund.

13. (U) Responding to complaints from some members regarding the quality of reports prepared for the FC, Deputy DG Butler promised to improve communications and outreach by FAO senior management, including fortnightly newsletters and briefings with Rome-based members. The FC also considered possible designation of a member state "champion" to encourage further pledges to the Trust Fund. The FC heard that DG Diouf and the CoC/IEE Chair had encouraged Trust Fund contributions during recent travel to member states. The FC called upon member states to engage in fund-raising, and encouraged Management support, including at regional FAO conferences.

UPDATE ON IPA COSTS AND FUNDING MODALITIES

14. (U) Updated figures developed as part of a "bottom up" review of the IPA indicated a reduction in the requirement for voluntary funding in 2009 from USD 21.8 million (not including 7percent project support costs) to USD 18.6 million (USD 19.9 million including support costs). This included an additional reduction of USD 0.42 million in preliminary cost estimates for 2010-11. While the lowered estimates for 2009 were due primarily to delays in planned expenditure to 2010-11, overall costs in 2010/11 were also reduced by USD 3.4 million, mainly attributable to lower estimated costs for staff redeployment and separation (from USD 12.4 million to USD 9 million).

15. (U) In reviewing the cost estimates for the IPA, the FC stressed the paramount importance of a renewed Organization, making FAO more efficient and effective. Members expressed concern that updated budget figures contained only updated

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costs, not savings. Furthermore, the document contained some editorial errors and inconsistencies between tabular and narrative presentation. The FC suggested several changes in the presentation of data on this item in future sessions including: a more visible presentation of the savings that would be derived from IPA actions; improved formatting to align explanatory text adjacent to tabular presentation; and finally, an account of actual expenditures against forecasts and available budget. Timely availability of the document was important for full consideration by Members.

16. (U) The Committee specifically requested that stage 2 costs and savings estimates from the Root and Branch Review be incorporated in the next IPA budget update. The Committee noted that over half of the IPA actions could be initiated within the planned Program of Work and Budget 2008-09 and therefore did not require extra-budgetary funding.

17. (U) The Committee received clarification that the estimated reduction in redeployment and separation costs in 2010-11 was due to more timely action than originally assumed to redeploy staff affected by delayering. In addition to the 13 headquarters D-level posts already delayed in 2008, 27 D-level posts would be delayed under the IPA, assuring that USD 17.4 million in savings would accrue in the 2010-11 biennium. The Committee also received reassurance that the forecast savings of USD 0.9 million in the TCP project cycle and approval processes was on track for 2010-11, and that further savings could be identified under the ongoing Root and Branch review. The FC urged management to continue to search for savings during IPA implementation.

18. (U) The Committee reiterated the importance of considering all avenues for identifying resources, such as windfall savings or from freed up Regular Program resources as a result of extra-budgetary contributions in support of technical programs, while ensuring that the planned Program of Work 2008-09 was fully implemented.

19. (U) Regarding the progress made in meeting the efficiency savings targets of USD 22.1 million in 2008-09, management

reported that USD 15.2 million in actual efficiency savings were expected to be achieved with the balance of USD 6.9 million to be found from one-time measures such as vacancies and a phased implementation of decentralization. The Committee regretted the failure to fully meet targeted levels of efficiency savings and asked to receive a detailed update on efficiency savings at its next session.

¶10. (U) The Committee noted that Council at its 119th Session in November 2000 had endorsed a policy on support cost reimbursements based on the principle of a reasonable alignment of charges to actual costs of providing administrative and operational support to projects. It appreciated that no waivers to this policy had been requested or granted since 2000, and recalled its concern at the persistent and growing under-recovery of administrative and operational support costs for extra-budgetary activities. The Committee supported continuing interagency consultations on the harmonization of cost recovery policies.

¶11. (U) In the case of the IPA Trust Fund, the Committee was satisfied that the proposed reduction of the project support cost to 7 percent was in accordance with the policy, since operational support was provided as a direct project cost in the project budget. While acknowledging the application of the policy, some Members were of the view that the IPA Trust Fund contained a very unique package of activities to strengthen FAO and a more flexible application of the policy might be appropriate (Note: A 13 percent support cost rate was applied to the previous IEE Trust Fund for preparation of the IEE report. End note). The Committee expressed concern that the only expenditure charged against the Trust Fund to date pertained to some of the interpretation and translation costs for the meetings for the Conference Committee and its subsidiary bodies. The FC urged management to proceed with tenders for other key elements of the IPA such as the Enterprise Risk Management Study as a signal of its intent to proceed expeditiously with full IPA implementation and to boost donor confidence.

¶12. (U) Management reported that it would need to prioritize actions in 2009 and postpone others to 2010-11 if substantial additional voluntary contributions were not received by mid-May 2009. It requested that this be fully considered in the next report to the Finance Committee. Senior management is looking carefully at regular program spending and possibilities for reprioritization of projected cost savings and program funding

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in areas where unanticipated extrabudgetary funding is expected.

The EU members of the FC (Italy, France, Germany) urged FAO management to consider ways to make use of a portion of the voluntary contribution to FAO from the EC EURO one billion "Food Facility" to support the IPA.

IMPLEMENTATION OF HUMAN RESOURCES STRATEGY

¶13. (U) The FC took note of the Progress Report on the Implementation of the Human Resources Management Strategy and Policy Framework and stressed that human resources (HR) management was fundamental and constituted a key component of the FAO reform. Looking forward, management reported that an initial review of cost estimates of the proposed rotation policy would likely reduce cost estimates. Reaffirming that the HR strategy framework should be a standing item on the agenda of its future sessions, the Committee requested that a "road map" be developed with timelines and measurable indicators for the implementation of the actions prescribed in the strategy, for consideration at its 126th Session to be held in May 2009.

WORKING METHODS OF THE FINANCE COMMITTEE

¶14. (U) In accordance with recommendation of the Independent External Evaluation, the FC decided that the report of the 125th Session should be made available to all Members of the CoC-IEE as soon as it was formally adopted. Recognizing the need for close coordination between the FC and the CoC-IEE, the FC asked its Chairman to coordinate with the Chairperson of the CoC-IEE on this issue.

COMMENT

¶15. (SBU) The reform process at FAO is underway, with a growing momentum that we expect to continue even if the IPA is not fully funded. That said, other members - developed and developing alike - have drawn attention in private and in public to the absence of a USG contribution to the reform trust fund. They believe that our calls for major reforms at FAO should be followed by a financial commitment to the trust fund for reform.

The Europeans, in particular, who note frequently that they have provided over ninety percent of the trust fund contributions to date, question our commitment to the organization. Even Brazil, having donated a hundred thousand dollars to the trust fund, is getting much mileage from its meagre contribution.

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